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DEPARTMENT OF THE AIR FORCE
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REPLY TO:

Auditor General
Comptroller, USAF
Eastern District
Liaison Office
PO Box 8155, SW Stn
Washington, D. C.

13 July 1959

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SUBJECT: Advisory Report on Use of Fixed Pricing Formula
Hycon Manufacturing Company
Pasadena, California
Contract No. HF-CT-696

TO: Contracting Officer

REF: DPD-2141-59 dated 31 March 1959

ENCL: (1) Computation of Profit or Loss by Call
(2) Comparison of Book Costs with Bid Costs for
Selected Calls

1. An examination has been made of the contractor's records to determine the reasonableness of the contractor's use of the fixed pricing formula under subject contract.

2. Actual book costs at completion of calls 1 through 5 for each customer were taken from the contractor's records and compared with the sales price for each call. The percentage of profit or loss on costs for each call was computed and is shown on enclosure (1). The contractor's bids on four of the calls, two for each customer, were developed and analyzed, and are compared with actual costs incurred on enclosure (2). Summary of data for both customers is shown below.

	<u>Cost</u>	<u>Sales Price</u>	<u>Profit on Cost</u>
Customer No. 1	\$16,523.	\$23,078.	\$ 40%
Customer No. 2	44,253.	58,679.	33%
Total contract	\$60,776.	\$81,757.	35%

contract HF-CT-696 discontinued
as of 20 June 1959 - CT-201
Price Redetermination Type
issued effective 1 July 1959

3. Percentagewise, the contractor realized large profits on all of the calls except Call No. 1 for customer No. 1, on which, based on book costs, a very small loss was incurred. The various elements of prime costs actually incurred varied widely from amounts bid. As shown on enclosure (2), in each case, some elements of cost were substantially over-bid while others were under-bid. Actual labor rates of employees performing the work were found to compare closely with bid rates.

4. Although there were various factors involved in each of the calls examined, it was found that the contractor's large profits were the result mainly from the over-bidding of labor hours and material costs. Actual costs include burden at book rates which, in all instances, exceeded the bid rates used. If these increases in burden rates had not occurred, profits realized by the contractor would be even greater.

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Liaison Officer
Eastern District
Auditor General